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# Release

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## Bank on the up

OP Financial Group reinvents itself to increase competitiveness.



# Nordics strong in new RBS

At the end of February, RBS presented its year-end accounts and updated strategy. Developments are largely positive. The bank also outlines how its operations will be even stronger moving forward.

The focus will increasingly be on the UK and Western Europe, which will be its strategic core market.

In addition there will be a presence in international nodes in Asia and the US.

RBS will be concentrated to the UK, Netherlands, France, Germany, Italy, Spain, Sweden, Norway, Denmark and Finland. There will also be offices in New York, Singapore and Tokyo. RBS is withdrawing from 25 countries.

So as many as four of 13 countries in the new RBS are here in the Nordic region. This is a reflection of the region's strong economy and otherwise stable conditions. Our prominent position is also attributable to the high quality of our customers in the Nordic countries. Multinationals here are successful, attractive business partners. No bank can ever be better than its customers.

RBS' new strategy also entails changes to its product range. Financing and risk management will be in focus, while cash management services outside of UK and Western Europe will gradually be phased out, which will affect our Nordic customers to some extent. We will however follow through on our commitments and facilitate the transition to new solutions unhurriedly. Payment services in Western Europe will be offered via a platform in the UK.

The Nordic countries and the UK have long enjoyed strong, far-reaching trade relations. Above all the renewal of RBS, with an increased focus on the local market, will create new opportunities for bringing these markets closer together.



Reinhold Geijer  
Head of RBS Nordic Region

## Release

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New record for TVO's borrowing.

PHOTO: HANNU HUOVILA/TVO

## TVO takes long-term approach

IN FEBRUARY, Finnish nuclear power company Teollisuude Voima Oyj, TVO, issued a 10-year € 500m unsecured bond.

The interest rate was 2.125 per cent, the lowest ever for TVO and indeed for any energy company in that currency. The term too was a record for TVO, being longer than all the previous EUR bonds it has issued.

The decision to issue came in the wake of the European Central Bank's announcement at the end of January that it

would begin buying government securities for € 60bn a month.

TVO is an unlisted power company that generates energy for its owners. Notable owners include PVO, Fortum, Stora Enso, UPM-Kymmene and Kemira.

Annual production is more than 14 terawatt-hours, or 17 per cent of all energy production in Finland. Net sales in 2013 were € 366m.

RBS was joint bookrunner in the transaction.

## Nordisk Renting recruits



The Swedish National Heritage Board building, a property of Nordisk Renting's.

PHOTO: HAKAN LINDGREN

NORDISK RENTING IS boosting its business development, rental and transaction organisation with six new employees.

"The new recruitment is part of Nordisk Renting's strategy to further strengthen its presence in both Sweden

and Finland.

We will consolidate existing customer relations and also pave the way for new customers and projects," says Ian Harcourt, responsible for the Nordisk Renting product area at Royal Bank of Scotland.

A house of creativity. Mats Williams, Karlstad Innovation Park and Marianne Andersson, Municipality of Karlstad are behind the investment in a special property.



# Innovative

TEXT KATARINA AVERÅS PHOTO JOHAN EKLUND

The vision is a house full of activity, creativity and new ideas. The natural place for people who believe in the power of working together. Karlstad Innovation Park has been around for less than a year, but it already plans to expand into another floor of the building.





The building is next to the university and is also home to Stora Enso.



Bright ideas are part of everyday life at the innovation park.

**FINAL ADJUSTMENTS ARE** being made to the furniture and the lunch salads are ready. Patrik Bångeri, innovation advisor at Karlstad University, will soon be welcoming 19 participants to this afternoon's value creation forum. The organiser is Inova, a greenhouse for new business ideas based at Karlstad Innovation Park.

The participants come from different companies – financiers and investors, potential customers and users.

“The aim is to talk about why ideas and new discoveries are valuable, and then get some constructive feedback. It really challenges your thought patterns,” he says.

Mats Williams, development consultant and MD of Karlstad Innovation Park, explains:

“This is an activity room that can be used in whatever way is best on the day.

It's incredibly flexible. Next time it might be needed for a workshop, a presentation or something else.”

**KARLSTAD INNOVATION PARK** is in a building owned by Nordisk Renting which is also home to Stora Enso. Its closest neighbour is Karlstad University with 16,000 students and 800 staff in research and education.

The innovation park offers 2,400 square metres of premises encompassing open-plan workspaces, a ‘coffice’, a quiet office lounge, individual work rooms, creative labs and many different types and sizes of meeting rooms.

Roughly 70 people work here in a wide range of operations. These include the Värmland County Council Experio Lab, the Vivan innovation hub, the students’ hothouse for entrepreneurs, Almi innovation consultants, and the cluster organisations Paper Province and The Packaging Arena.

The initiator behind the innovation park was the Municipality of Karlstad. It all started with a workshop in autumn 2012 with representatives

### Karlstad Innovation Park

Co-operative society characterised by collaboration, co-operation and a smarter work approach.

Organisations working in the building can choose from a range of rental solutions. All service is included, as are any activities that promote development.

Karlstad University makes a mark on the whole city district, so there is a natural interaction between Karlstad Innovation Park and several unique research environments.

The innovation park is being developed in association with the Municipality of Karlstad, Region Värmland and Värmland County Council. The property owner is Nordisk Renting, a subsidiary of RBS.

from the private sector, municipal councils, the county and regional councils, the university and trade organisations. Just over a year later a co-operative society was formed, and in May 2014 Karlstad Innovation Park was opened and filled with activity.

“This is the right environment for everyone who wants to help promote innovation and enterprise,” says Marianne Andersson, trade and industry strategist for the Municipality. “The idea behind the innovation

“ This is the right environment for everyone who wants to help promote innovation.

park was not to create yet another player, but to be a meeting-place for others.”

“We decided this was the right building for us as it's so close to the university and its unique research environments. Karlstad city centre is less than ten minutes away.”

A digital map at the entrance gives an overview and is easy to update when one organisation leaves and a new one moves in.

“This is our coffice,” says Williams, showing us into the combined café and office area.

**THIS IS A PLACE** for people to eat lunch, but the Karlstad Innovation Park coffice is also a possible workplace for anyone who doesn't need or wish to work from a regular office. Users buy an annual pass.

Along the walls in the corridor are small tables where anyone can show prototypes, drawings, concept descriptions or products and services that are already on their way to market.

“We put them here with the invitation ‘Place for innovation’,” says Williams. “They're starting to get filled, which is great to see!” ×

# Looking upward and onward

TEXT ANNELI KAMLIN

Securitisation is making a comeback. Banks looking to manage capital, funding, liquidity and risk objectives are starting to use Asset-Backed Securities, ABS, as a balance sheet management tool. Buyers are showing a growing interest.

**WHEN A BANK** lends money, the customer takes on debt. From the bank's perspective, this creates an asset in the balance sheet.

Securitisation occurs when a bank sells assets such as mortgage loans, credit cards or corporate loans to a special purpose company that funds itself by issuing bonds.

Instruments created in this way and sold by banks on the financial markets are called Asset-Backed Securities (ABS), and they essentially comprise several loans combined and sold as portfolios.

**DURING THE FINANCIAL** crisis, securitisation has been seen negatively, mainly driven by securitisation of ‘subprime’ mortgage loans in the US.

“ Bolsters the entire economy.

“The problem then was really that the underlying loan quality of certain assets was poor. But there is an emerging recognition that it wasn't the basic structure of the securities that was the problem, it was weak collateral, mainly in the US”, says Markus Reule, Managing Director and expert in Asset-Backed Finance at RBS in London.

Harmen van den Hondel, who runs RBS's Northern European ABS business, adds:

“European ABS, by contrast, has performed very well during the financial crisis”.

From RBS's point of view, there are

several factors behind the comeback of Asset-Backed Finance.

Demand from banks is expected to increase since securitisation is a way of strengthening the balance sheet, which is pivotal as capital ratio requirements grow ever tougher.

“Securitisation is an effective way of freeing up capacity in a bank's balance sheet, since it enables new private and business lending. In the long run it bolsters the entire economy,” explains Reule.

**HOWEVER, IF BANKS** are to find a market for their bonds, there has to be an interest on the financial markets.

“There are interested buyers, both from existing as well as new investor groups. Investors looking for attractive risk return profiles and diversification in a low yield environment have created a positive technical backdrop

for ABS issuers,” says Reule.

He also says that the structure for ABS has developed.

“There is more transparency, including loan level information. It's considerably easier now to see what the underlying collateral is, even on a loan-by-loan level,” says van den Hondel.

It also appears that regulators have recognised the importance of ABS to the real economy.

“The European Central Bank and the Basel Committee are sounding increasingly positive. Moreover, work is in progress to create new ways of guaranteeing new issues.” says van den Hondel. ×



# Changing the angle

TEXT ANNELI KAMLIN PHOTO KATRI LEHTOLA

Finland's biggest bank has a new name, a new structure and new owners. OP Financial Group is the new name for the competitive, customer-owned financial services group offering banking, insurance and wealth management services.

**ONE IN THREE** euros lent in Finland comes from a financial institution that has a renewed brand, but has been around for 120 years: OP Financial Group. The name has only existed since the beginning of this year, and the current structure has been in place since 2014.

"Since 1 January this year we've been using the name OP in all parts of the group. The short, concise name reflects our new beginning, with a far simpler, clearer operation," says Elina Ronkanen-Minogue, who works in OP Cooperative in the group and is Head of ALM and Group Treasury.

**“Corporate customers are growing in importance and we're increasingly strong there.**

**THE CORE OF** the OP Financial Group comprises the old co-operative banks or 'Osuuspankki' in Finnish, and insurance company Pohjola. However, the group has long been a complex mixture of different units bearing different names, making it hard to both grasp and manage effectively.

"To improve our competitiveness we're



"Investors view our changes positively," says Elina Ronkanen-Minogue, Head of ALM and Group Treasury.

changing the overall structure of our organisation. Our main aim is to be more customer oriented with segment based organisational design, but also to improve our competitiveness in the current, more strictly regulated financial services industry," says Ronkanen-Minogue.

**IT IS PRIMARILY** a case of streamlining the operation, increasing the company's understanding of its customers and involving customers more, especially when it comes to developing new products and services.

The new structure within OP Financial Group is based on three business segments: Banking, Non-life Insurance and Wealth Management (including Life Assurance). This division reflects both the structure of the organisation and the potential the market offers.

"We'll be focusing on cross selling between the segments, where there's great potential for growth. For example we have two million banking customers who don't have their non-life insurance with us."

Historically, the bank has good coverage across Finland. With a network of more than 450 branches OP is also a local bank, one where you can still go in and talk to the staff.

This local presence facilitates cross selling of different products to the same customers. The branch network will be

used more to offer insurance solutions to banking customers, for instance.

OP Financial Group is strongly focused on private customers.

"But corporate customers are growing in importance, and we're becoming increasingly strong in that segment. In addition to providing financial services to large corporates we're targeting more and more medium-sized companies, which we can reach via our branch network," Ronkanen-Minogue explains.

**“We'll focus on cross selling between the segments.**

The plans for the group also include focusing on the capital region and developing mobile services. There will also be more digital solutions in the internal processes.

**ONE MAJOR CHANGE** is the bank's ownership. The group previously had two main parts, listed Pohjola Bank plc and customer-owned cooperative banks.

However, in 2014 the listed company Pohjola Bank plc was delisted from the Helsinki Stock Exchange.

"We're now completely customer-owned," says Ronkanen-Minogue.

"This also helps to increase clarity. The old structure was hard to grasp

for everyone, from customers to investors. Being customer-owned also means we can retain the profits from the business operations within the group and can use those to further develop the operations. There's no longer any expectation to pay a dividend to external shareholders."

**SO OP FINANCIAL GROUP** has left the stock exchange behind, but it is still highly active on the money market for its own borrowing.

"We have of course discussed these changes with our debt investors, partly through road shows and other meetings. The news has been

greeted positively, and investors have understood the strategic path we've chosen. The market has also focused on our key financial indicators, which are strong," says Ronkanen-Minogue.

The restructuring of the financial group has secured a more stable capital base. There has been a joint liability within OP Financial Group, i.e. OP Cooperative and the member credit institutions are jointly liable for each others' debts and commitments.

"We are largely self-funding. Borrowing from customers accounts for slightly less than 70 per cent of our funding needs," says Ronkanen-Minogue.

"We also regularly issue bonds. These are mainly in euro, but we've also issued in Swiss francs and Japanese yen, combined with swaps to euro, to diversify our funding structure.

Activity has been higher in 2014 than previously, as our delisting required financing."

**IN COLLABORATION WITH RBS**, OP Financial Group's issuer OP Mortgage Bank issued a secured bond of € 1bn in the autumn and another issuer, Pohjola Bank plc, issued a senior unsecured bond of € 750m earlier in 2014.

"We value working with RBS, who works proactively and professionally to support us," Elina Ronkanen-Minogue concludes. X

## An umbrella brand



The name OP Financial Group encompasses all activities within the group. Previous names may however still occur in purely legal contexts.

OP Financial Group encompasses three business segments, which in turn comprise the following subsidiaries:

### Banking

Pohjola Bank plc, Helsinki OP Bank plc, OP Mortgage Bank, OP Card Company plc.

### Non-life Insurance

Pohjola Insurance Ltd with its subsidiaries.

### Wealth Management

Pohjola Asset Management Ltd, OP Life Assurance Company Ltd, OP Fund Management Company Ltd.

The group also includes OP Services Ltd which is responsible for the group's support functions, as well as product and service development.



# Building boom on a local level

TEXT ANNE MARGRETHE MANNERFELT PHOTO KICKI NILSSON

2015 is an investment-intensive year for Sweden's municipalities, and this means that funding has to run smoothly. Kommuninvest's work to help municipalities exploit benefits of scale on the international finance market is more important than ever.



According to Mattias Bokenblom, the investment volume will reach SEK 130bn this year.

**KOMMUNINVEST'S BUSINESS** concept is simple, clear and the same as it was in the beginning in 1986. By working together, Sweden's municipalities and county councils can strengthen their position with lenders.

And there is certainly a call for this, as local and regional authorities have a greater need for funding today than they have had in a long time.

Mattias Bokenblom, Head of Research at Kommuninvest, says that municipalities are in a period of intensive investment.

**"THIS IS LARGELY** due to strong population growth.

Sweden's population is currently growing by one per cent a year, which is high by European standards. Investment is mainly needed in municipal services like pre-schools and schools, housing and energy supply.

Due to the ageing population, the municipalities also need to extend some of their elderly care operations."

Programme (the state's drive to build a million new homes), and many business premises were built.

These homes and premises now need modernising or replacing."

**THE NEED FOR** investment in the Million Programme areas and in water and sewage pipes is estimated to cost hundreds of billions of kronor. Kommuninvest's upcoming spring report on local government investment predicts that investment in the sector will increase by 6 per cent a year in 2014 and 2015.

"This means we would reach a volume of 130 billion kronor this year. There will probably be an increase after that as well, although possibly at a somewhat lower rate than in 2014 and 2015," Bokenblom explains.

To make sure that municipalities have the funding they need, Kommuninvest diversifies its borrowing across different markets, currencies and investors. Roughly half of the funding for

## About Kommuninvest

Kommuninvest is owned by 280 Swedish municipalities and county councils, and exists to support their financial management with stable, cost-effective funding, skills development and co-operation.

With lending in the region of SEK 220bn, Kommuninvest is the largest lender to Swedish municipalities and county councils.

"There are many future investments under way," says Mattias Bokenblom, Head of Research at Kommuninvest.



the municipalities comes from Swedish investors, and half is in currencies other than SEK.

"Investors around the world buy Kommuninvest's bonds, and the borrowing is then channelled to the municipalities," Bokenblom explains.

"Kommuninvest has close, well-developed relations with many of the world's leading banks," says Maria Viimne, Deputy CEO of Kommuninvest.

"Banks play a key role in bringing us together with investors, assisting with borrowing transactions and keeping us updated on central industry and wider world issues.

Our borrowing programme reaches out to investors in some 50 countries, so good relations with banks are absolutely pivotal to us."

**RBS HAS ARRANGED** bond loan issues for Kommuninvest on several occasions.

Several banks even compete with Kommuninvest to lend to the local government sector, but Viimne asserts that healthy competition is a good thing both for Kommuninvest's owners and its customers.

"It means that we continuously

have to assess and develop our customer offering." Bokenblom believes that the interest among investors in Swedish local government organisations is related to Sweden's institutional framework and the strong economy in the public sector. In Sweden, local governments have great autonomy, power of taxation and healthy finances.

**"SWEDEN'S MUNICIPALITIES** are 80 per cent funded by tax revenue while funding in, say, the UK is 80 per cent government subsidies. There is also a strong institutional framework with a balanced budget requirement and income equalisation."

**BOKENBLOM SAYS IT** is important that municipalities can obtain the best possible terms when funding their investments in welfare.

"What local governments do affects everyone in the country. It's about how we fund our welfare in the future. Continued financial collaboration among local government organisations is tremendously important for the future." ×

## Investment for Kesko

TEXT ANNELI KAMLIN



**FINNISH RETAIL GIANT** Kesko is working actively to develop its stores. Kesko has long been working with Nordisk Renting on its strategic properties.

At nine locations in Finland, Nordisk Renting owns properties in which Kesko runs its business.

"Nordisk Renting has recently made a new investment for us in Kokkola, which helps us exploit strategically important opportunities on a growing market," says Juhani Rontu, Property Manager at Kesko Food.

**THE INVESTMENT RELATES** to a retail building in central Kokkola, which has been renovated and made available for Kesko.

"We established a new hypermarket outside the town centre, with better parking. The old hypermarket was converted into a large supermarket and retail premises for other Kesko players, which are better suited to a central location. Overall we are increasing our presence in Kokkola," Rontu explains.

The co-operation between Kesko and Nordisk Renting is constantly developing.

"Kesko is one of Nordisk Renting's biggest customers, and a good example of an active customer relationship. We have carried out several add-on investments and projects together in Finland," says Alexander Wörlund, responsible for Nordisk Renting in Finland. ×



# New phase for hedging

TEXT ANNELI KAMLIN ILL. MATTIAS KÄLL

The hedging of exchange and interest rate risks is starting to be viewed more positively again. RBS is seeing increased interest.

**"WE'RE ENTERING A** new phase. It looks like developments in the next few years could make it easier and more attractive for companies to carry out transactions that reduce their risks. We are having a lot of interesting discussions with our customers about this," says Martin Arnborg, Director Derivatives Sales at RBS.

"Bearing in mind how the regulations on accounting and reporting requirements have developed since the turn of the millennium, companies have adapted their way of hedging financial risks.

Sometimes they have even decided against hedging certain flows as they have simply found it too costly or complicated," Arnborg explains.

**HOWEVER, WORK IS** now under way to modify the current accounting regulations, which is expected to make life easier for companies wishing to hedge their risks.

This process is focusing on developing the framework for reporting financial derivatives.

"In brief, it means we're going from a rule-based to a more effect-based system," says Arnborg.

**IN RECENT YEARS** stricter requirements on banks' hedging of credit and financing risks, along with an equity provision for hedging derivatives trading, have entailed higher costs for derivatives trading, thereby affecting pricing to customers.

"Customers used to easily be able to forecast the price of a derivative by studying the market level of, say, a 10-year interest rate and adding a



Less risk of a fall: derivatives secure transactions.

relatively standardised market spread. Gauging what the price will be is more complicated now, as it depends on all kinds of factors as well as the underlying market level."

**THIS COMPLEXITY HAS** sometimes made it hard for financial managers in companies to push through decisions on risk management at management and board level, according to Arnborg.

"The new terms have settled somewhat, and there's less of a difference in cost between banks. I believe we're heading for something of a paradigm shift, with more dynamic financial policies that enable corporate treasury departments to fully draw on their experience and expertise," he says. X



"I believe we're heading for something of a paradigm shift," says Martin Arnborg, Director Derivatives Sales at RBS.

## Scania wants to avoid surprises

**"FEW COMPANIES WANT** undesired items that affect income and have to be explained. The framework for hedging exchange and interest rate risks is more sophisticated now than it has been, and is contributing to an increase in hedging," says Börje Wigfeldt, Deputy Group Treasurer for Scania.

"At Scania we've always been keen to shield ourselves from risk.

We don't want any surprises because we haven't secured ourselves financially," says Wigfeldt.

"Scania uses various hedging solutions, via derivatives, but we have other methods too. For instance, we may decide to redirect borrowing to different currencies."

A few years ago EMIR was introduced, with extended requirements on reporting all interest and exchange rate

hedges to a central trade repository.

This means that all counterparty risks, including those with internal players, must be reported.

"We expected this to entail a lot of extra work and additional costs, so we decided to cut back on derivatives trading and instead redirect our borrowing. We used to borrow mostly in EUR and SEK and then swap it to NOK, for example. Because of the new regulation, we borrowed directly in, say, NOK to a greater extent instead," Wigfeldt explains.

"We can now see that the changes turned out not to be as extensive as we thought, so we've gone back to our previous routines."

Wigfeldt feels that "the world of accounting has encroached on the world of finance" in recent years. X



**Reflektioner**  
Pär Magnusson  
Chief Economist,  
RBS Nordic Region

## Absurd numerology

**MANKIND HAS AN** instinctive tendency to find patterns and symmetry. People may gasp for breath when an exchange rate passes a particular whole number, but barely react to just as large a fluctuation on some other level. A movement in the EUR/USD exchange rate from 1.01 to 0.99 is seen as a much bigger event than a move from 1.03 till 1.01.

This phenomenon has reared its head when central banks have reduced key interest rates to negative levels. The magic zero has been passed.

Reactions are a mixture of amazement, confusion and anger. "Negative interest, but that's absurd!"

Anyone condemning the insanity of the age is following a long tradition.

Negative numbers were not accepted in European mathematics until the 16th century. Even Pythagoras is reputed to have exclaimed, "How can something be less than nothing? That's absurd!"

So, it's time we started getting used to negative numbers. Unfortunately.

They are a sign our economies aren't working.

People don't want to consume or invest enough. People are losing their jobs.

Wages and prices risk falling.

The risk of deflationary expectations arises, which makes people consume and invest even less.

Why buy today when it'll be cheaper tomorrow? And so the negative spiral begins.

It must be avoided at any price, and this is why negative interest rates are necessary, to smoke people out of their saving dens.

The alternative, accepting dangerous stagnation - now that's absurd. X



Co-worker portrait: Jonas Lindgren

**Home town:**  
Born, grew up and lives in Stockholm.

**Apple of his eye:**  
A 1966 British racing green Porsche.

**Sport:** Old ice-hockey player. Various forms of exercise.

**Wears to weddings:**  
Naval mess dress.

**Sketches:**  
Drawings of DIY projects, most recently a fitted bookcase.

**Successful trip:**  
Uruguay last year with his fiancée – “beautiful and relaxing”.

# “ Advice is still important

TEXT ANNELI KAMLIN PHOTO HÅKAN LINDGREN

**T**he digitalisation of interest rate trading has accelerated, and customers often trade by themselves on different platforms.

However, advice is still an important part of our offering,” says Jonas Lindgren, customer relations manager for RBS’s interest rate trading for Nordic financial institutions.

Or Vice President, Fixed Income Sales to be precise.

**JONAS LINDGREN STARTED** at RBS in 2007, originally as assistant to the Nordic Head. The RBS/ABN Amro integration was in full swing and Jonas was busy setting out the future strategy for the Nordic region.

“One thing led to another, and my next job at RBS was formulating the strategy globally for the Group’s investment bank. I was based in London.”

He enjoyed London, but found he

did little else but work.

Eventually a more customer-related job in Stockholm called, building up Nordic interest rate trading.

**THESE DAYS HIS** working day starts early with a look at the financial news and an update from RBS’s markets in different time zones. From 9 am, when the Nordic markets open, Jonas talks and chats to pension funds, hedge funds and other customers.

“It’s about giving advice, how customers should enter into and exit out of different interest rate positions. The job reflects what I’m like as a person. I like doing business, but I also enjoy having contact with a wide range of people with different personalities.”

Alongside the day-to-day advice, customers are supported at a strategic level by optimising their interest rate portfolios.

“The best days are when there’s a

lot going on and we manage to close on all our proposals, in a mutually beneficial way.”

Jonas Lindgren’s path to the world of finance includes a four-year spell in the navy.

“The navy was excellent leadership training, and one of the main things it gave me was an ability to focus on the task at hand. I’m happy to take the role of leader when required, but I don’t always have to be centre stage.”

**HIS YEARS IN** the navy included a lot of underwater exploration at sea.

“During the submarine drama in Sweden last November, I could easily imagine what it was like standing on that bridge.”

Jonas also spent a year at a boarding school in Connecticut, which claims to “graduate men of character and promise”.

“It was... special,” he says diplomatically. ×